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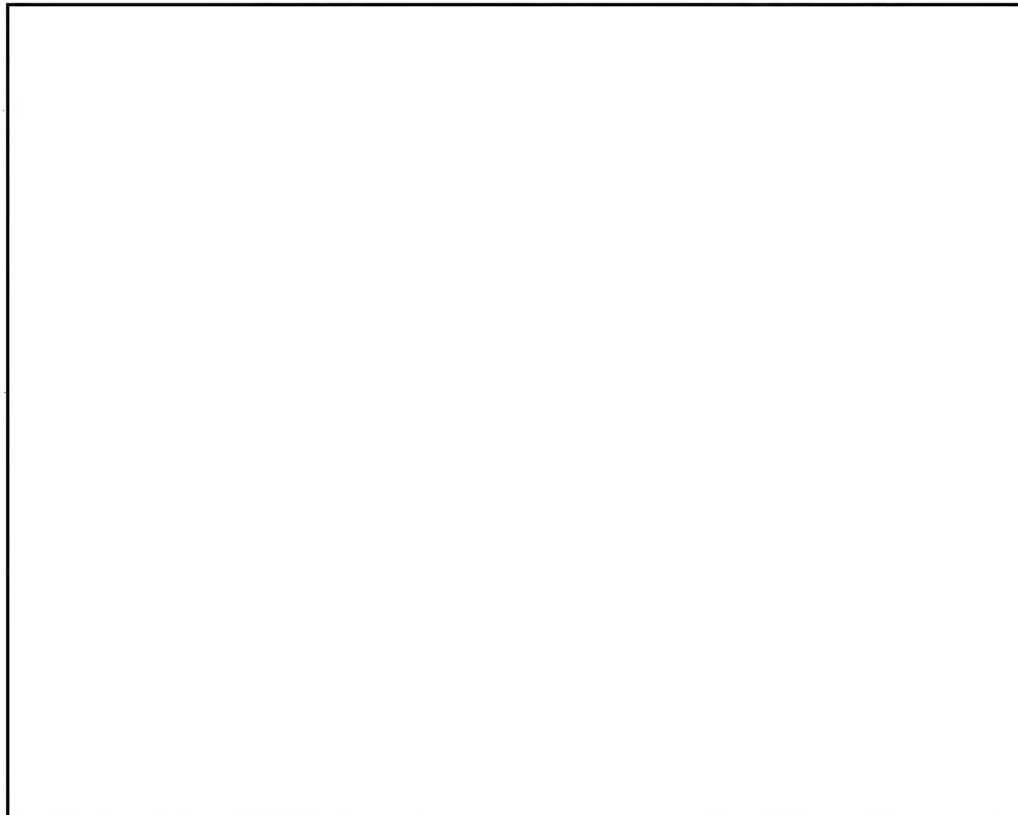
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State Dept. review completed

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1. USSR HOPES SUMMIT PROPOSAL WILL TEST
NATO UNITY

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[REDACTED]

Private statements by Soviet officials, as well as Premier Bulganin's new letters, reflect Moscow's increasing confidence that West European pressures for new East-West negotiations will either force

eventual American agreement to a heads-of-government meeting or encourage its NATO allies to make independent moves toward an accommodation with the USSR.

Moscow's repeated rejection of the NATO proposal for a foreign ministers' conference, which Bulganin said would only create "additional obstacles" to agreement, indicates that the Soviet Union believes it can rebuff Western offers without jeopardizing its posture of seeking an East-West settlement. Soviet Ambassador Malik told Foreign Minister Selwyn Lloyd privately on 7 January that instead of a foreign ministers' meeting, the USSR preferred either a summit conference, a special UN General Assembly session, or a world disarmament conference.

The Soviet Union's vigorous efforts to create the appearance of a serious desire for top-level negotiations have been accompanied by signs that the Soviet leaders would like to undertake new visits to free world countries. Norway has reported renewed feelers from Moscow for a trip by Khrushchev and Bulganin to Oslo, and there are unconfirmed reports that they will visit Iran in March and Egypt sometime this year. Recent pronouncements by the Soviet leaders and notes to free world heads of government have stressed the need for high-level personal contacts.

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2. THE SITUATION IN INDONESIA

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The possible establishment of an independent regime in Sumatra is receiving wide publicity, both in Holland and Indonesia. Detailed Dutch press reports state that Indonesia's dissident colonels who met at Padang, Central Sumatra, wish to establish a government, possibly with Hatta at its head, to counter that of Djakarta and to combat Communism. Two newspapers in Djakarta, one leftist and one Communist, reported on 9 January that anti-Communists were planning to establish

a "state of Sumatra," and denounced Masjumi and Socialist party leaders on the island for supporting these plans.

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Additional evidence of the central government's difficulties with the outer regions is the recent intensification of dissident activities in East Indonesia. The self-styled governor of North Celebes recently broke with the provincial administration in Makassar, stating that he would henceforth deal only with Djakarta, which he asserted had already given de facto recognition to his autonomy move last year. In addition, pro-Djakarta officials in Makassar are said to be highly disturbed over reports that the South Celebes commander and Darul Islam leader Muzakkar have agreed to end fighting between their forces, which may result in unity of action.

3. RIFT IN CHINESE NATIONALIST GOVERNMENT

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A serious rift between the Control Yuan and the executive organs of the Chinese Nationalist Government may, if not resolved soon, lead to further Control Yuan attacks on government officials and possibly to some ministerial shake-ups. The Control Yuan, the "watchdog" branch of the government, on 23 December impeached Premier O. K. Yui on charges of dereliction of duty, and on 9 January, in the face of strong official disapproval, voted to continue the investigation.

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In its resolution of 9 January, the Control Yuan affirmed its intention to continue to investigate Yui's connections with the government Central Bank. [redacted]

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The members of the Control Yuan have long been frustrated by their lack of authority. Repeated attempts in the past to impeach officials have failed.

A potentially serious aspect to the crisis is the demonstrated collapse of Kuomintang party discipline. Ninety percent of the Control Yuan members belong to the ruling party, [redacted]

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[redacted] This lack of discipline also extends to the Legislative Yuan, which has recently opposed official policy on several important issues. [redacted]

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6. TUNISIAN-FRENCH TALKS ENCOUNTERING DIFFICULTIES

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Tunisian-French discussions preparatory to resuming negotiations appear to be floundering. Tunisian President Bourguiba continues to insist that all uniformed French personnel be withdrawn from southern Tunisia before common defense negotiations can begin. Bourguiba threatens that if Paris does not agree, he will withdraw his proposal that Bizerte remain a French base and offer it "to another Western country or countries." He told the French ambassador that Britain and the United States would understand his position.

Paris may find it difficult to meet Bourguiba's terms inasmuch as other French concessions are dependent on Tunisia's acceptance of French air police at four airfields in southern Tunisia. The French are particularly concerned about Bourguiba's conviction that he will have the understanding and support of London and Washington.

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7. INDIA RE-EMPHASIZES POSITION ON KASHMIR DISPUTE

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The Indian Government during the past ten days has re-emphasized its adamant position in the Kashmir dispute, possibly to strengthen its bargaining power in advance of UN representative Frank Graham's arrival in New Delhi on 12 January to open a new round of discussions on the issue.

In recent public statements, Prime Minister Nehru and Defense Minister Krishna Menon have reiterated in strong terms the Indian stand that there can be no progress toward a solution of the Kashmir dispute until Pakistan evacuates the sector of Kashmir it has "illegally" occupied since 1947. Krishna Menon on 4 January ruled out any settlement on the basis of a partition such as along the present cease-fire line, and warned that the Indian Government was not prepared to hold "secret negotiations" of any kind with Dr. Graham.

Indian leaders previously had indicated that they were giving some consideration privately to the possibility of a package settlement with Pakistan, in which agreement on such other major differences as the division of canal waters would be negotiated along with the Kashmir question.

8. BURMA TO OBTAIN ECONOMIC AID FROM BLOC

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The loans obtained by Burmese Deputy Prime Minister Kyaw Nyein from the USSR and Communist China during his recent tour of the bloc are to be used for projects that appear to be economically sound and highly desired by the Burmese, according to the American Embassy in Rangoon.

The USSR has agreed to provide up to \$6,000,000 for the construction of two irrigation dams in central Burma which had been previously recommended by a Soviet agricultural team. Negotiations for the financing of these dams have been under way in Moscow for some time, but their conclusion was deferred until Kyaw Nyein arrived.

Communist China has promised a \$7,000,000 loan for the construction of a farm implement factory and a textile factory. This is the first instance of Peiping granting a loan to a non-Communist country.

All loans carry a 2.5-percent interest rate, but vary in longevity. The Burmese will have 12 years to pay for the dams, and five years for the implement factory; the period of the loan covering the textile plant has yet to be determined. Burma is to make repayment in kind, presumably in rice.

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10. SHAKE-UP IN VENEZUELAN CABINET

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The Venezuelan cabinet resigned at midnight on 9 January at the request of President Perez, who probably acted under strong military pressure.

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The cabinet resignations suggest that Perez may be replaced shortly by a military junta, possibly with civilian elements. According to press reports, a new cabinet, formed on 10 January, has a majority of military officers.

The breakdown in Perez' one-man rule may touch off an extended period of instability, in which long-suppressed civilian groups compete with the armed forces for dominance of the government. The military leaders may therefore retain Perez at least temporarily as a symbol of their unity and to prevent widespread violence in reaction to several years of Perez' authoritarian control. A large-scale demonstration was held in Caracas on 10 January calling for an end to the dictatorship.

The government has moved to heal the widening breach with the Catholic Church by releasing six priests from prison.

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12. DUTCH POLICY TOWARD INDONESIA

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After discussions with various Dutch officials, Ambassador Young at The Hague has the impression it is virtually impossible for the present Netherlands Government to enter negotiations with

Indonesia on the future status of West New Guinea. Although there has been some criticism of this policy, the vast majority of Dutch opinion holds that the Netherlands should not "submit to blackmail." Moreover, the present coalition was constituted on the basis of retention of sovereignty over New Guinea, and Prime Minister Drees is obstinately opposed to any revision of this stand.

While Dutch enterprises have been marking time concerning their future in Indonesia, indications are that all except those which can demonstrate international ownership will leave "lock, stock, and barrel" if no political changes occur during the absence of President Sukarno. One factor in such a decision would be anticipation of civil disorders growing out of the food crisis.

Once Dutch interests have decided to withdraw, they may be more amenable to suggestions that non-Communist nations should attempt to fill the resulting vacuum. Ambassador Young believes that the Dutch Foreign Ministry already considers this to be in the Netherlands' own interest.

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